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# **VENTURE CAPITAL FINANCING 216H1S**

**Spring, 2006**

**Professor Jeffrey G. MacIntosh  
Faculty of Law  
University of Toronto**

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VENTURE CAPITAL FINANCING (216H1S)

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Spring, 2006

Wednesday, 2:10 – 4:00 P.M.

Pre-requisite: Business Organizations

Pre-requisite or co-requisite: Securities Regulation

This course may be used to satisfy the Extended Paper requirement. It is also a Perspective Course.

Academic Syllabus Entry

Venture capital financing has become a major source of capital for small technology-driven firms. In this course we will examine the following:

1. What is venture capital? How is it distinguished from other sources of financing? What kinds of firms use venture capital financing?
2. The history of the venture capital industry in Canada, with a focus on the past 10 years.
3. The size and structure of the venture capital industry. In this respect, we will look at Labour Sponsored Venture Capital Corporations, private funds, corporate funds, government funds, and institutional funds, with a focus on the first two types.
4. Legal documentation for a typical venture capital deal, including the term sheet, subscription agreement, and shareholders' agreement.
5. The nature of the legal agreements binding investors with venture capital fund managers.
6. Venture capital "exits", the means by which venture capitalists harvest their investments and move on to other investments, with a particular focus on initial public offerings.

7. How venture capital in Canada compares to venture capital in other countries.

8. The nature and structure of the angel investor industry in Canada (an important precursor to venture capital financing).

The course will involve visits by a significant number of market actors, including venture capitalists, lawyers, investment bankers, and others. The practical perspective furnished by these visitors will be counter pointed by an academic analysis of various aspects of the venture capital industry, from the viewpoint of the financial economist.

**Evaluation:** will be by a paper of approximately 25 pages in length.

## Syllabus

### January 4, 2006: Course Introduction and Overview

Jeffrey G. MacIntosh, Legal and Institutional Barriers to Financing Innovative Enterprise in Canada, pp. 1-40

Jeffrey G. MacIntosh, "The Banks and Innovative Enterprise: Opportunities and Constraints", in Richard J. Braudo and Jeffrey G. MacIntosh, eds., Competitive Industrial Development in the Age of Information (London: Routledge, 1999)

### January 11, 2006: The Financial Economics of Venture Capital

William A. Sahlman, "The Structure and Governance of Venture Capital Organizations" (1990), 27 J. Fin. Econ. 473

### January 18, 2006: Angel Investors

#### Guests:

Bruce Gitelman, Royal Bay Capital Inc.

David Howard, Fulcrum Partners Inc.

#### Reading:

Equinox Management Consultants Ltd., "Informal Equity Capital for SMEs: A Review of the Literature" (Ottawa: Industry Canada, 2000)

### January 25, 2006: Labour Sponsored Venture Capital Corporations: Boon or Bane?

Douglas J. Cumming and Jeffrey G. MacIntosh, "Crowding Out Private Equity: Canadian Evidence", University of Alberta and University of Toronto working paper

Douglas J. Cumming, "Mutual Funds that Invest in Private Equity? An Analysis of Labour Sponsored Investment Funds", University of Alberta and University of Toronto working paper

February 1, 2006: *Venture Capital Exits*

Douglas J. Cumming and Jeffrey G. MacIntosh, "Venture Capital Exits in Canada and the United States" (with Douglas J. Cumming), (2003) 53 University of Toronto Law Journal 101-200 (pp. 101-169)

February 8, 2006: *Venture Capital Finance and Litigation Over the Boom-Bust Cycle*

Douglas J. Cumming and Jeffrey G. MacIntosh, "Venture Capital Finance and Litigation Over the Boom-Bust Cycle" (2005), 40 Willamette Law Rev. 867

February 15, 2006: *Deal Documentation*

Guest:

Jeremy Fraiberg, Osler, Hoskin & Harcourt LLP

Reading:

Term Sheet (to be distributed prior to class)

February 22, 2006: *Reading Week*

March 1, 2006: *Statistical Review of the Venture Capital Industry in Canada*

Guest:



Representative of Macdonald & Associates Ltd. (Toronto)

Readings:

CVCA, “2004 Review of Venture Capital Investment Activity in Canada” (available at <http://www.cvca.ca/resources/statistics/>)

CVCA, 2004 Industry Statistics Tables 1-5 (available at <http://www.cvca.ca/resources/statistics/>)

CVCA, “Canadian Venture Capital & Private Equity Industry Performance Data” (May 20, 2005, available at [http://www.cvca.ca/files/CVCA\\_Press\\_Release\\_Performance\\_Study\\_Dec\\_2004\\_\\_final\\_May\\_20\\_2005\\_R.pdf](http://www.cvca.ca/files/CVCA_Press_Release_Performance_Study_Dec_2004__final_May_20_2005_R.pdf))

March 8, 2006: Corporate Venture Capital

Readings to be distributed prior to class.

March 15, 2006: IPOs – Canadian Data and An Academic Perspective

Cecile Carpentier, Maher Kooli, and Jean-Marc Suret, “Initial Public Offerings: Status, Flaws, and Dysfunctions”, Research Paper prepared for the Small Business Policy Branch (Industry Canada) as part of the Small and Medium-sized Enterprise (SME) Financing Data Initiative

March 22, 2006: IPOs – An Investment Banker’s Perspective

Guest:

Alan Polak, VP Investment Banking, Genuity Capital Markets

Readings:

Legal Documents (if any) to be handed out at previous week’s class.

March 29, 2006: The Entrepreneur's Perspective on a Start-up Business

Guest:

Bill Tatham, CEO, XJ Partners ( formerly of Janna Systems)

Janna Systems was started by Bill Tatham in 1995 (yes, literally, in a basement). Its business consisted of supplying software to corporations for purposes of managing client relations in a web-based environment. Janna was acquired by Siebel (another company in the same business) in 2000 for \$1.4 billion. Yes, that's billion. I've asked Bill to give us a blow-by-blow account of the business and financing ups and downs of the business from founding to sale.

Readings:

The following readings will give you a bit of background on Janna and the sale to Siebel.

Peter Macdonald, "Small Market, Big Opportunity",  
PROFITguide.com  
(<http://www.profitguide.com/maximize/article.jsp?content=652>)

"Janna Inc. Announces Two Acquisitions to Bolster Internet  
Capability" (<http://www.creativepro.com/story/news/5050.html>)

Deborah Jessop, "Siebel Systems to Buy Janna Systems"  
(<http://www.internetnews.com/bus-news/article.php/459451>)

"Siebel Scoops Rival Janna for \$1.4B", Lexpert, Oct. 1, 2000

April 5, 2006: No Class

Afternoon set aside for individual discussions re papers. Let me know if you want to reserve a time.



